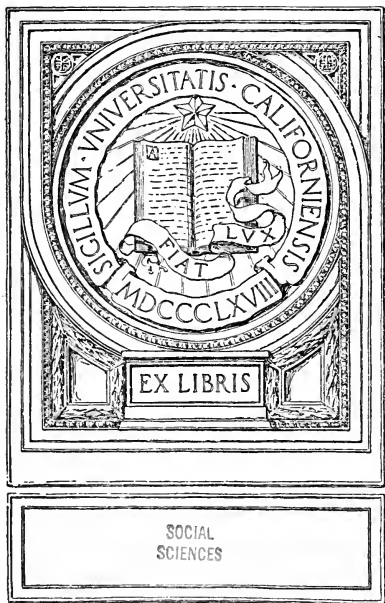


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OPERATING EXPENSES IN RETAIL HARDWARE STORES

THE common figures for operating expenses in 218 retail hardware stores are summarized in this bulletin. The stores from which reports were received are located in thirty-nine states and Canada. The reports were received by mail. Each was carefully checked to make sure that it tallied with the uniform accounting system that is used as the standard. Figures that could not be relied upon have been omitted in the compilation of the tables.

This study of the retail hardware trade was undertaken by the Bureau as part of its general plan for gathering reliable information on operating expenses and management problems in retail and wholesale businesses. The uniform accounting system that was published in 1918 constitutes the basis for the work. It is very similar to the uniform accounting systems that the Bureau has issued for other retail trades.

A lack of reliable accounting methods is common in the retail hardware trade, as elsewhere. The Bureau has found through its correspondence that in numerous retail hardware stores no inventory is ever taken. In numerous cases also, a merchant's accounts are so incomplete as to give him little information that can be relied upon. There is, however, evidence of a tendency toward a more widespread introduction of better accounting methods. As these methods are improved, the work of the Bureau in gathering these figures will, of course, be facilitated. While the figures given in this bulletin are necessarily subject to revision as more data are received in the future, nevertheless they serve as an approximate guide to the costs of operating a retail hardware business.

The stores covered by these reports vary in volume of business from \$11,000 to \$292,000 a year. In one-half of these stores the annual sales are from \$16,000 to \$54,000. In one-fourth, the annual sales are from \$55,000 to \$89,000, and in one-fifth from \$90,000 to \$178,000. All the reports are for 1917 and 1918, about two-thirds of them for the latter year. Comparisons indicate that the relation of expenses to sales was about the same each year. The average investment in merchandise, owing primarily to higher prices, was about 5 % greater in January, 1919, than in January, 1918.

For each item of profit and expense, and for stock-turn, the table on page 5 shows the lowest figure found in any store, the highest figure, and the common figure. The common figure is the one which is found in the largest number of stores. It is the predominant, typical, and most frequent figure. This is the standard used for purposes of comparison.

All the percentages are based on net sales. Profit and loss might be figured either on cost or on sales, of course, provided both were on the same basis. If a merchant figures his expense on sales, however, and his profit on cost, he is likely to delude himself as to the amount of net profit that he is making. If the gross profit on merchandise sold were 25 % of the cost, for example, and if the expenses were 20 % of the sales, the merchant would come out at the end of the year without any net profit because 25 % of the cost equals 20 % of the selling price. The practical difficulty in using cost as a basis is that many retailers wish to compare their total expenses with their total sales rather than with their total cost of the goods sold. If expense is figured as a percentage of sales, of course profit should be figured on the same basis for ready comparison. The best course, in the Bureau's experience, is to use sales as the basis, and therefore in all its compilations the net sales are taken as 100 %.

OPERATING EXPENSES IN RETAIL HARDWARE STORES, 1917-18

Net Sales = 100 %

Item	Lowest %	Highest %	Common %
Wages of Salesforce	3.36	10.8	5.8
Other Selling Expense	0.1	3.2	0.4
Total Selling Expense	3.9	11.86	6.5
Delivery Expense	0.06	3.82	0.9
Buying Expense	0.4	2.81	1.0
Management and Office Salaries .	1.6	5.6	2.5
Office Supplies and Postage	0.06	1.01	0.3
Total Management Expense	1.9	5.58	3.0
Total Interest	1.11	5.38	3.0
Rent	0.38	7.3	2.4
Heat, Light, and Power	0.09	1.31	0.3
Taxes (Except income and bldgs) .	0.16	1.73	0.5
Insurance (Except on buildings) .	0.14	1.32	0.5
Repairs of Store Equipment	0.03	1.05	0.17
Depreciation of Store Equipment	0.04	1.61	0.3
Total Fixed Charges and Upkeep Expense	4.8	12.47	7.5
Miscellaneous Expense	0.14	3.57	0.8
Losses from Bad Debts	0.05	2.84	0.5
Total Expense	15.74	38.2	20.6

GROSS AND NET PROFIT

Item	Highest %	Lowest %	Common %
Gross Profit	40.2	12.75	26.5
Net Profit (or Loss)	<i>Profit</i> 11.1	<i>Loss</i> 10.2	<i>Profit</i> 6.0

TOTAL EXPENSE

Total expense is the sum of all the individual items of expense. It includes not only expenditures for such items as wages, office supplies, and taxes, but also a fair salary for the proprietor or partners, rent for the store whether leased or owned, and interest both on borrowed money and on the proprietor's net investment in the business. The lowest figure for total expense in the reports that have been received is 15.74 %, and the highest figure 38.2 %. The percentage of total expense shows about the same range and the same common figure in stores in which the annual sales are over \$100,000 as in those with sales below that amount. The common figure for total expense in all the stores that reported is 20.6 % of the net sales. This is what it costs to operate a typical retail hardware store.

WAGES OF SALESFORCE

The largest item among the expenses of hardware retailers, ordinarily, is the wages of the salesforce. This includes the amount paid to the salesforce, and also a part of the salary of the proprietor according to the time that he spends in selling. The expense for wages of salesforce ranges from 3.36 % to 10.8 % of the sales. The common figure is 5.8 %. A substantial group of stores, however, are spending only 5 % for wages of salesforce, so that this may be taken as a standard of efficiency above the average, but clearly within the reach of most retail hardware stores.

OTHER SELLING EXPENSE

Such items as payments for advertising, wrapping paper, twine, crates, and packing boxes are included in other selling expense. This varies from 0.1 % to 3.2 %. The common figure is 0.4 %.

TOTAL SELLING EXPENSE

This is the sum of Wages of Salesforce and Other Selling Expense. The common figure is 6.5 %. This is somewhat higher than the figure for Total Selling Expense in retail grocery stores, but it is less than the Total Selling Expense in retail shoe stores where the fitting of customers takes more time than the serving of customers in retail hardware stores.

DELIVERY EXPENSE

Delivery expense is generally small. The common figure is 0.9 %. This includes the wages of drivers, and also all the items of expense for the use and maintenance of the delivery equipment and of the stable or garage. There is less uniformity in delivery expense than in most of the other items. One group of stores shows a delivery expense of 0.25 %, another group 1.4 %, and there are several stores spending over 2 % of their sales for delivery. These variations are probably due not only to the differences in the policies of the stores, but also to differences in the location and distances that it is necessary for the delivery equipment to cover. Delivery expense is a little higher in the retail hardware trade than in the retail shoe trade, but it is small in comparison with the retail grocery business.

MANAGEMENT AND OFFICE SALARIES

The Bureau has found, in the course of its inquiries, that in many cases the proprietors and partners in retail hardware stores are not charging salaries for themselves as an expense of their businesses. A special inquiry has been made in each case to determine the amount which should be properly included, and also to divide this between management, buying, and selling according to the part of his time that the proprietor spends for each of these purposes. The common figure for management and office salaries, which is 2.5 %, appears to be a fair average for the trade.

RENT

In order to obtain figures that may be compared, the Bureau has found it necessary to include rent for the store, whether leased or owned, in the expenses of the business. From the business standpoint also, it is desirable that the rent of the store when owned should be taken into account in figuring expenses of the business. The common figure for rent is 2.4 % of the sales. Wide variations are shown in the expense for rent. The lowest figure is 0.38 %, and the highest 7.3 %. While the largest number center around 2.4 %, one group spends less than 1.5 %, and another substantial group shows an expense of over 3 % for rent. Few stores with annual sales of over \$100,000 show a rent figure that is less than 2.3 %.

TOTAL INTEREST

In the uniform accounting system for hardware retailers, interest on borrowed capital and interest on the net investment of the owners of the business are included in the expenses. Real estate is omitted in determining this net investment, for the return for the use of real estate is covered by the rent charged. The net investment, or owned capital, on which interest is charged, is the average net worth of the business for the period for which the statement is made out. It is the sum of the assets (not including real estate) less the sum of the liabilities to outsiders (not including capital stock or surplus of a corporation, or undivided profits). The assets include cash, merchandise on hand, equipment at depreciated value, notes and accounts receivable, and any prepayments such as prepaid insurance. The liabilities include notes and accounts payable and accrued items such as unpaid taxes (not mortgage on real estate). The interest is figured at the current rate for reasonably secure, long-time investments in the locality in which the business is situated. This interest charge, therefore, represents the amount which the

capital would be expected to earn if it were invested elsewhere.

The common figure for total interest is 3.0 % of the net sales.

REPAIRS OF STORE EQUIPMENT

This is a small item. The common figure is 0.17 %, and many stores reported no expense for this purpose.

DEPRECIATION OF STORE EQUIPMENT

This is also small, the common figure being 0.3 % of the sales. About one-half of the stores from which reports were received did not include any charge for the depreciation of their equipment. Although small, this is an item which cannot safely be omitted if the accounts of a store are to be a reliable guide to sound management.

LOSSES FROM BAD DEBTS

Apparently there is a tendency for hardware retailers to carry on their books bad accounts of which there is little hope of collection. This conclusion is based upon the number of reports which showed no expense for losses from bad debts, or only nominal amounts. The common figure is 0.5 % of the net sales. This is somewhat larger than in the retail shoe trade where the common figure for losses from bad debts is about 0.2 %, and the same as in the retail grocery trade before the war.

NET PROFIT OR LOSS

The most unprofitable business from which a report was received showed a loss of 10.2 % of the sales. The most profitable business showed a net profit of 11.1 %. The common figure for net profit for the years 1917 and 1918 was 6 % of the net sales.

This net profit is the amount which remains after all the expenses, including proprietor's or partners' salaries, rent for

the store whether leased or owned, and total interest have been deducted from the gross profit. It is the amount which the business earns over and above expense charges of every sort. It is not to be confused with interest, or considered as a return upon the investment. In the long run, it is the result of good management. Net profit that the business shows is due to the keen foresight, the sound judgment, and the personal leadership of those in charge. Occasionally it may be due to chance, or good fortune, but this is rare. It is careful, farsighted, well-balanced management that counts most. Employees may also help largely in the creation of the net profit under inspiring leadership of the management. It is to these factors, not to the capital, that the net profit of any business is to be attributed.

STOCK-TURN

The rapidity with which the stock is turned is generally a good index to the management of a retail business. The common figure for stock-turn in the retail hardware trade is 1.8 times a year. This common figure apparently holds good for stores with small, medium, and large volume of sales. The lowest figure for the number of stock-turns is 0.85 times a year, and there are several other stores from which the Bureau has received reports that show a stock-turn of less than once a year. In ordinary times this would almost inevitably lead to disaster because of the extra expense of carrying such an excess stock and because of losses eventually through depreciation and obsolescence. The highest figure for stock-turn is 5.75 times a year, and enough stores turn their stock at least 2.5 times to indicate that that is a fairly attainable goal.

Stock-turn is measured for this compilation by dividing the average of the inventories at the beginning and end of the year into the *cost* of goods sold, not into the *sales*. For the purpose of figuring stock-turn, it is obviously desirable to

have figures for the amount of stock on hand at more frequent intervals. That would give a more accurate average for the stock carried, but such records are seldom kept in the trade. Since the stock on hand in retail hardware stores is likely to be somewhat less than normal at the inventory period, the figure for stock-turn probably should be somewhat lower than stated above. Since more frequent inventories cannot be generally secured at the present time, the figures that are given here may be considered as approximately correct for purposes of comparison.

The rate of stock-turn is much lower in the retail hardware trade than in the retail grocery trade, but the range and the common figure are approximately the same as in retail shoe stores.



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